

Message Text

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ACTION EB-08

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SUBJECT: GE GENERAL AGREEMENT WITH SOVIET MINISTRY OF POWER MACHINE
BUILDING

REF: 76 LONDON 20219

SUMMARY: GENERAL ELECTRIC (GE) VICE PRESIDENTS JOHN URQUHART
(GAS TURBINES) AND K. CHRISTIANSON (INTERNATIONAL SALES)
INFORMED AMBASSADOR FEBRUARY 18 OF SIGNING WITH SOVIET MINISTER
OF POWER MACHINE BUILDING KROTOV OF 14-POINT GENERAL AGREE-
MENT ON FUTURE COOPERATION. URQUHART SAID GE EXPECTS \$2 BILLION
IN BUSINESS IN USSR OVER NEXT 5-10 YEARS, BUT ACKNOWLEDGED
NEED TO AVOID POSSIBLE OVERDEPENDENCE ON SOVIET MARKET. END
SUMMARY.

1. URQUHART STATED THAT THE AGREEMENT SIGNED FEBRUARY 17,
WHICH HE DESCRIBED IN TERMS OF A SUMMARY PROTOCOL OF CONVER-
SATIONS DURING RECENT VISIT TO USSR BY GE OFFICIALS AND TECHNICAL
EXPERTS, UPDATES A 1973 PROTOCOL SIGNED WITH THE STATE
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COMMITTEE FOR SCIENCE AND TECHNOLOGY. MINISTRIES ARE NOW
PERMITTED TO SIGN SUCH COOPERATION AGREEMENTS DIRECTLY, AND
THE MINISTRY OF POWER MACHINE BUILDING HAD BEEN ANXIOUS TO
HAVE ONE IN ITS OWN RIGHT. THE 14-POINT AGREEMENT FORESEES
A NUMBER OF TECHNICAL EXCHANGES, MAINLY IN THE U.S. GE
EXPECTS THAT MOST BUSINESS - BOTH EQUIPMENT AND LICENSES -
WILL CONTINUE TO BE IN THE AREA OF GAS TURBINES FOR SOVIET

PIPELINES. IT HAS ALREADY DONE \$600 MILLION IN BUSINESS IN USSR AND EXPECTS SALES OF \$2 BILLION OVER NEXT 5-10 YEAR PERIOD. URQUHART SAID THAT THE AGREEMENT CALLED FOR COOPERATION IN STEAM TURBINE AND NUCLEAR AREA AS WELL, BUT GE EXPECTS ONLY EXCHANGES OF PAPERS SINCE SOVIETS ARE NOT READY TO ADMIT THEY NEED HELP ON STEAM TURBINES. WHILE SOVIETS RECOGNIZE THEIR GAS TURBINES ARE OF LOW QUALITY, HE ADDED, THEY FEEL THEY CANNOT CEASE PRODUCTION.

2. NOTING THAT SOVIETS DO NOT WISH US WELL, AMBASSADOR RAISED SUBJECTS OF TECHNOLOGY TRANSFER AND POSSIBLE OVER-DEPENDENCE ON SOVIET MARKET BY MAJOR AMERICAN FIRM. URQUHART RESPONDED ACKNOWLEDGING LEGITIMACY OF OUR CONCERN ON BOTH POINTS. HE SAID THAT TURBINE TECHNOLOGY IS 20 YEARS OLD AND THAT ACTUAL COOPERATION IS LIMITED TO DEVELOPMENT OF ITS APPLICATION IN LOCAL CONDITIONS. IN THE NUCLEAR AREA, HE ADDED, THERE WILL BE "NO PHYSICS" INVOLVED IN ANY EXCHANGES, WHICH MAY TAKE PLACE. IN RESPONSE TO AMBASSADOR'S INQUIRY AS TO PROPORTIONATE SIGNIFICANCE TO GE OF ANTICIPATED SALES IN THE USSR, URQUHART STATED THAT \$2 BILLION SALES TO USSR WOULD REPRESENT ABOUT TWENTY PERCENT OF GE EXPORT SALES IN THAT PERIOD. HOWEVER, IN VIEW OF KNOWN UNCERTAINTY OF SOVIET MARKET, THEY ARE NOT BUDGETED, AND HE IS NOT COUNTING ON THE BUSINESS. MOREOVER, GE PLANTS ARE PRESENTLY RUNNING BELOW CAPACITY AND LOOK TO SALES TO USSR AS ONLY SUPPLEMENTARY TO FILL SLACK.

3. CHRISTIANSON SAID SOVIETS NOT "SEEM MORE WILLING" TO BUY LICENSES FOR GE TECHNOLOGY. WHEN AMBASSADOR ASKED IF GE DID NOT STILL PREFER TO SELL MERCHANDISE, CHRISTIANSEN CONCURRED. LIMITED OFFICIAL USE

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4. GE LOCAL REP LAPTEV, IN REVIEWING COMPANY'S RECENT LACK OF SUCCESS HERE, STATED THAT SINCE DECEMBER 1976 SUCCESS BY ROLLS ROYCE IN WINNING GAS PUMPING MODULE CONTRACT (76 LONDON 20219) IN COMPETITION WITH GE, SOVIETS HAVE BEEN USING ROLLS ROYCE AS FOIL TO MAKE GE "SHARPEN ITS PENCIL". GE OFFICIALS COMMENTED THAT AVAILABILITY OF LOW COST BRITISH CREDIT HAD HELPED TURN TO TIDE TO ROLLS ROYCE-LED CONSORTIUM. APPARENTLY SPEAKING WITH GLOBAL REFERENCE, CHRISTIANSON SAID THAT POLICY OF EXPORT-IMPORT BANK TO ACT ONLY AS LENDER OF LAST RESORT REPRESENTED HIS "BIGGEST PROBLEM" SINCE IT PRECLUDES "PRE-COMMITMENT" OF SUPPORT.

5. SIGNATURE OF AGREEMENT BETWEEN GE AND MINISTRY OF POWER MACHINE BUILDING APPEARS TO REPRESENT FURTHER EVIDENCE OF TREND TOWARDS MORE DIRECT INVOLVEMENT BY INDUSTRIAL MINISTRIES IN FOREIGN TRADE PROCESS. MINISTRY OF FOREIGN TRADE (MFT) OFFICIAL ACKNOWLEDGED IN DISCUSSION AT GE-HOSTEL RECEPTION THIS WEEK THAT MFT DOES NOT HAVE SPECIALIZED TECHNICAL COMPETENCE

NECESSARY TO MASTER INCREASING COMPLEXITY OF LATEST TECHNOLOGY
AND MUST DEFER TO THE EXPERTISE OF THOSE WHO DO. ON THE OTHER
HAND, GE HOPES THAT BY ESTABLISHING WRITTEN "PROTOCOL" FRAME-
WORK (SO DEAR TO SOVIET HEARTS) IT WILL BE ABLE TO MAKE UP
LOST GROUND ON SOVIET MARKET. WE NOTE THAT THIS IS ANOTHER
EXAMPLE OF CASE WHERE SOVIET ORDERS WILL APPARENTLY PERMIT
EMPLOYMENT OF SUBSTANTIAL AMOUNT OF IDLE US INDUSTRIAL CAPACITY.

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